

**REPORT OF THE AUDIT OF THE
FORMER HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
April 16, 2014 Through December 31, 2014

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Harlan County Sheriff for the period April 16, 2014 through December 31, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$7,560,613 for the districts for 2014 taxes, retaining commissions of \$315,406 to operate the Sheriff's office. The former Sheriff distributed taxes of \$7,193,615 to the districts for 2014 taxes. Refunds of \$2,179 are due to the former Sheriff from the taxing districts.

Report Comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Dan Mosley, Harlan County Judge/Executive
Honorable Marvin Lipfird, Former Harlan County Sheriff
Honorable Leslie E. Smith, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Harlan County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through December 31, 2014 of the former Harlan County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2015 on our consideration of the former Harlan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Harlan County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the former Harlan County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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Honorable Leslie E. Smith, Harlan County Sheriff

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Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen

Auditor of Public Accounts

August 20, 2015

HARLAN COUNTY
MARVIN LIPFIRD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 1,949,545	\$ 1,351,780	\$ 2,106,467	\$ 707,871
Tangible Personal Property	981,357	519,245	831,860	914,035
Fire Protection	7,148			
Franchise Taxes	166,809	92,374	174,693	
Additional Billings	8,914	5,139	11,285	3,528
Bank Franchises	83,329			
Penalties	35	19	39	
Adjusted to Sheriff's Receipt	(143)	(56)	518	(54)
Gross Chargeable to Sheriff	<u>3,196,994</u>	<u>1,968,501</u>	<u>3,124,862</u>	<u>1,625,380</u>
<u>Credits</u>				
Exonerations	10,795	7,539	13,339	3,946
Discounts	42,308	25,585	39,889	23,462
Transferred To Incoming Sheriff:				
Real Estate	470,247	331,063	526,183	170,452
Tangible Personal Property	186,908	96,960	164,854	187,429
Bank Franchises	22,492			
Additional Billings	8,400	4,875	10,825	3,050
Franchise Taxes	<u>1,771</u>	<u>972</u>	<u>1,780</u>	
Total Credits	<u>742,921</u>	<u>466,994</u>	<u>756,870</u>	<u>388,339</u>
Taxes Collected	2,454,073	1,501,507	2,367,992	1,237,041
Less: Commissions *	<u>104,298</u>	<u>63,814</u>	<u>94,720</u>	<u>52,574</u>
Taxes Due	2,349,775	1,437,693	2,273,272	1,184,467
Taxes Paid	2,334,295	1,429,621	2,259,365	1,170,334
Refunds (Current and Prior Year)	<u>16,128</u>	<u>8,404</u>	<u>14,480</u>	<u>14,759</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (648)</u>	<u>\$ (332)</u>	<u>\$ (573)</u>	<u>\$ (626)</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
MARVIN LIPFIRD, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period April 16, 2014 Through December 31, 2014
(Continued)

* Commissions:

4.25% on	\$	5,192,621
4% on	\$	2,367,992

** Special Taxing Districts:

Library District	\$	(129)
Health District		(53)
Extension District		<u>(150)</u>

(Refunds Due Sheriff)	\$	<u><u>(332)</u></u>
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HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Harlan County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2014 through December 31, 2014.

Note 4. Interest Income

The former Harlan County Sheriff earned \$265 as interest income on 2014 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The former Harlan County Sheriff collected \$102 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former Sheriff's escrowed amounts were as follows:

2010	\$814
2011	\$2,833
2012	\$963
2012	\$24 (UMC)

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dan Mosley, Harlan County Judge/Executive
Honorable Marvin Lipfird, Former Harlan County Sheriff
Honorable Leslie E. Smith, Harlan County Sheriff
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the former Harlan County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated August 20, 2015. The former Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Harlan County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Harlan County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Harlan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Harlan County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 20, 2015

COMMENT AND RECOMMENDATION

HARLAN COUNTY
MARVIN LIPFIRD, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2014 Through December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties over receipts and reconciliations. The former Sheriff's bookkeeper collected payments from customers, prepared deposits, prepared daily collection printouts, and posted to the receipts ledger. In addition, the former Sheriff's bookkeeper prepared monthly tax reports and disbursement checks and performing the monthly bank reconciliations. The former Sheriff or another individual did not document oversight of any of these activities.

The lack of segregation of duties occurs because the former Sheriff failed to segregate incompatible duties or implement oversight duties when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties over receipts and reconciliations would prevent the same person from having a significant role in these incompatible functions.

The former Sheriff could have separated duties in collecting taxes, preparing daily deposits, preparing monthly reports, and preparing reconciliations. If these duties could not be segregated due to a limited number of staff or a limited budget, then strong oversight should have been provided over the employee responsible for these duties. The former Sheriff or employee providing the oversight should have documented this oversight.

Former Sheriff's Response: No Response.

